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REHABILITATION TAX CREDITS

Rehabilitation of a historic building has its rewards: reuse of existing resources, improved appearance and function for residential or commercial use, and overall community revitalization. However, as anyone who has ever tackled a rehabilitation project knows the repair and renovation of historic buildings can be an expensive undertaking.

Fortunately, there are several incentives to make these projects more affordable. To encourage continued preservation and promote economic development and revitalization, the federal government and the state of Virginia offer tax credit programs for rehabilitation of historic buildings.

Since 1976, the Federal Rehabilitation Tax Credit program has proven hugely successful with over \$1 billion of private investment in Virginia's historic downtowns. Modeled after the federal credits in 1997, the state program has produced over \$125 million of additional investment in local economies through historic rehabilitation. Both the state and federal tax credit programs are administered through the Virginia Department of Historic Resources (VDHR).

What are Rehabilitation Tax Credits?

Both the federal and state credits are dollar-for-dollar reductions in income tax liability for taxpayers who substantially rehabilitate certified historic buildings. The federal credit is 20% of eligible rehabilitation expenses for income-producing structures. The state credit is 25% of eligible expenses for income-producing or owner-occupied structures. For income-producing properties, an owner may be able to take advantage of both credits for a total 45% credit on their investment.



State and Federal Rehabilitation tax credits aided in the dramatic transformation of this downtown Harrisonburg building.



What is a Substantial Rehabilitation? How Much Do I Have to Spend?

To qualify as a “substantial” rehabilitation for the federal tax credits an investor must spend more than the adjusted basis in the building, or \$5000, whichever is greater. The adjusted basis is typically the purchase price, minus the land value, minus any previous depreciation or capital improvements.

For the state credit, an investor must spend at least 25% of the assessed value of the building for owner-occupied structures, and at least 50% for all other structures.



Rehabilitation of Fairfax Hall in Waynesboro included repairs to historic wooden windows, brick, siding, and cupolas, and interior elements such the grand hall, staircase, wood floors, doors and trim throughout.



What Buildings Qualify for the Credits?

For the federal credit, buildings individually listed on the National Register of Historic Places or listed as a contributing structure in a registered historic district may qualify.

For the state credit, buildings individually listed on the Virginia Landmarks Register, listed as a contributing structure within a registered historic district, or those certified as eligible for listing, may qualify. In Virginia, most properties listed on the National Register are also listed on the Virginia Landmarks Register. Owners should be aware that sometimes locally designated historic districts are not necessarily listed on the Virginia or National Registers. To find out if your building is listed on either register, is within a registered historic district, or is eligible for listing, contact the Virginia Department of Historic Resources or the Register website: http://www.dhr.virginia.gov/register/register_counties_cities.htm.

Qualifying Factors for Tax Credit Eligibility:

- Building is listed on the National Register of Historic Places or listed as a contributing structure in a registered historic district (federal credit)
- Building is listed on, or listed as a contributing structure within a registered historic district, or is eligible for listing on the Virginia Landmarks Register (state credit)
- Rehabilitation work must be substantial; i.e. cost of rehab must exceed pre-rehab cost (adjusted basis) of the building
- Building must be income-producing (federal credit)
- Rehabilitation work must meet the Secretary of the Interior's Standards for Rehabilitation
- Historic Certification Application, Parts 1, 2, & 3, must be filed with the Virginia Department of Historic Resources

What Guidelines Must be Followed?

To qualify for the federal and state tax credits, all work completed must comply with the *Secretary of the Interior's Standards for Rehabilitation*. The Standards are ten guidelines for ensuring that the historic features and the overall historic character of a building are preserved. These guidelines emphasize repair over replacement, and the preservation of distinctive features, materials and spaces of historic buildings.



The Homestead Dairy Barns at Hot Springs, renovated for use as a fitness and recreation complex for the Homestead Preserve housing development, serves as an example of creative, compatible new use.



In Clifton Forge, tax credits were used at the Allegheny Hotel building for rehabilitation of storefronts and interior spaces.

The Secretary of the Interior's Standards for Rehabilitation

The Standards (Department of Interior regulations, 36 CFR 67) pertain to historic buildings of all materials, construction types, sizes, and occupancy and encompass the exterior and the interior, related landscape features and the building's site and environment as well as attached, adjacent, or related new construction. The Standards are to be applied to specific rehabilitation projects in a reasonable manner, taking into consideration economic and technical feasibility.

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
8. Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

How Do I Apply for the Credits?

The process for applying for state or federal rehabilitation credits requires completion of the three parts of the *Historic Preservation Certification Application*. Parts 1 and 2 should be completed and filed prior to beginning any construction to ensure that the building qualifies and that the proposed work meets the Secretary of the Interior's Standards for Rehabilitation. Owners who have begun work on an eligible property may still be able to apply with proper pre-construction documentation. Contact the Virginia Department of Historic Resources for assistance: http://www.dhr.virginia.gov/tax_credits/tax_credit.htm

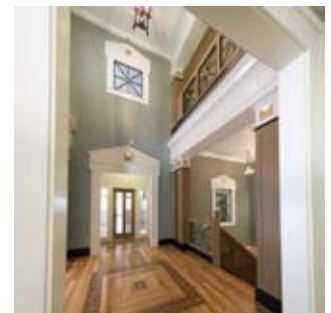
- **Part 1: Evaluation of Significance-** Submitted before work begins. Includes address, date of construction, name of historic district, owner name and address, current photographs of the building showing interior and exterior features and site or streetscape, and brief descriptions of the building's appearance and significance in the historic district. This part certifies that the building is historic. Buildings individually listed on the Virginia or National Registers do not need to file Part 1. (Parts 1 & 2 may be submitted together using the same photographs.)
- **Part 2: Description of Rehabilitation-** Submitted before work begins. Includes a detailed description of all proposed rehabilitation work, keyed to photographs of significant architectural features; i.e. roof, windows, brick, porch, etc. Interior and exterior repairs and rehabilitation must be addressed. Architectural plans, detail specifications, or other documentation describing the work should be included to provide a complete picture of the proposed project. This part certifies that the proposed work meets the Secretary of the Interior's Standards for Rehabilitation. If alterations to the described work need to be made during construction, owners should notify DHR as soon as possible for approval of changes.

- **Part 3: Certification of Completed Work-** Submitted when construction is complete. Includes documentation showing that all work meets the Secretary of the Interior's Standards for Rehabilitation as described in the Part 2 application. Photographs, of similar views to those taken for Part 2, must be included and show all significant interior and exterior features and completed work; final costs of the project are also submitted at this stage. This part certifies that the project meets all requirements and is eligible to receive the tax credits.

An 1850s print provided documentation and guidance for the replacement of the portico at the American Hotel in Staunton.



Before and after photographs are submitted with the applications. Both exterior and interior views show the extent of work, such as the rebuilt portico and interior renovation.



What Resources are Available to Assist Property Owners?

The Virginia Department of Historic Resources (VDHR) administers both the Federal and State Rehabilitation Tax Credits. Applications are filed through VDHR, with staff providing assistance and guidance to property owners throughout the process. Information, required forms, a sample application, and a guide to commonly asked questions are available on their website at http://www.dhr.virginia.gov/tax_credits/tax_credit.htm

In addition, VDHR holds a Rehabilitation Tax Credit Open House, to provide hands-on assistance with the application process, the first Friday of each month. Check the website calendar for dates, times and directions, or call Chris Novelli at (804) 367-2323, ext. 100 for an appointment.

For Virginia Main Street projects, owners should notify VMS architects as soon as possible if they plan to submit their project for rehabilitation tax credits.

Detailed information on the Federal Historic Preservation Tax Incentive Program is available on the National Park Service website at www.cr.nps.gov/hps/tps/tax/incentives/index.htm

Property owners interested in exploring the use of the rehabilitation tax credits should also talk with a knowledgeable accountant or lawyer to discuss their financial and tax situation before applying.

Internet links for the Secretary of the Interior's Standards for Rehabilitation:

National Park Service

www.nps.gov/history/hps/tps/tax/rhb/stand.htm

Virginia Department of Historic Resources

www.dhr.virginia.gov/tax_credits/tax_credit.htm

BENEFITS OF THE TAX CREDIT PROGRAM

Use of the federal and/or state tax credits can make the cost of a rehabilitation project more affordable for individuals and developers on projects both large and small. In addition, following the Secretary of the Interior's Standards for Rehabilitation to qualify for the tax credits gives owners guidance on appropriate rehabilitation to protect the overall character of historic buildings. This contributes greatly to the preservation of Virginia's wealth of historic buildings and the individual identity of its communities.

Over 1,400 historic properties in Virginia have been rehabilitated through the tax credit program since its inception in 1976. With over 400 historic districts throughout the state, there are thousands more properties that could qualify. By providing an incentive for rehabilitation of historic buildings, the state and federal Tax Credits are an important tool in both community revitalization and private investment.



With over \$125 million of investment through the state program alone, the rehabilitation tax credits have proven to be an effective revitalization tool for main streets across Virginia.